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THE *Demand and Price* SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

WASHINGTON, D.C.

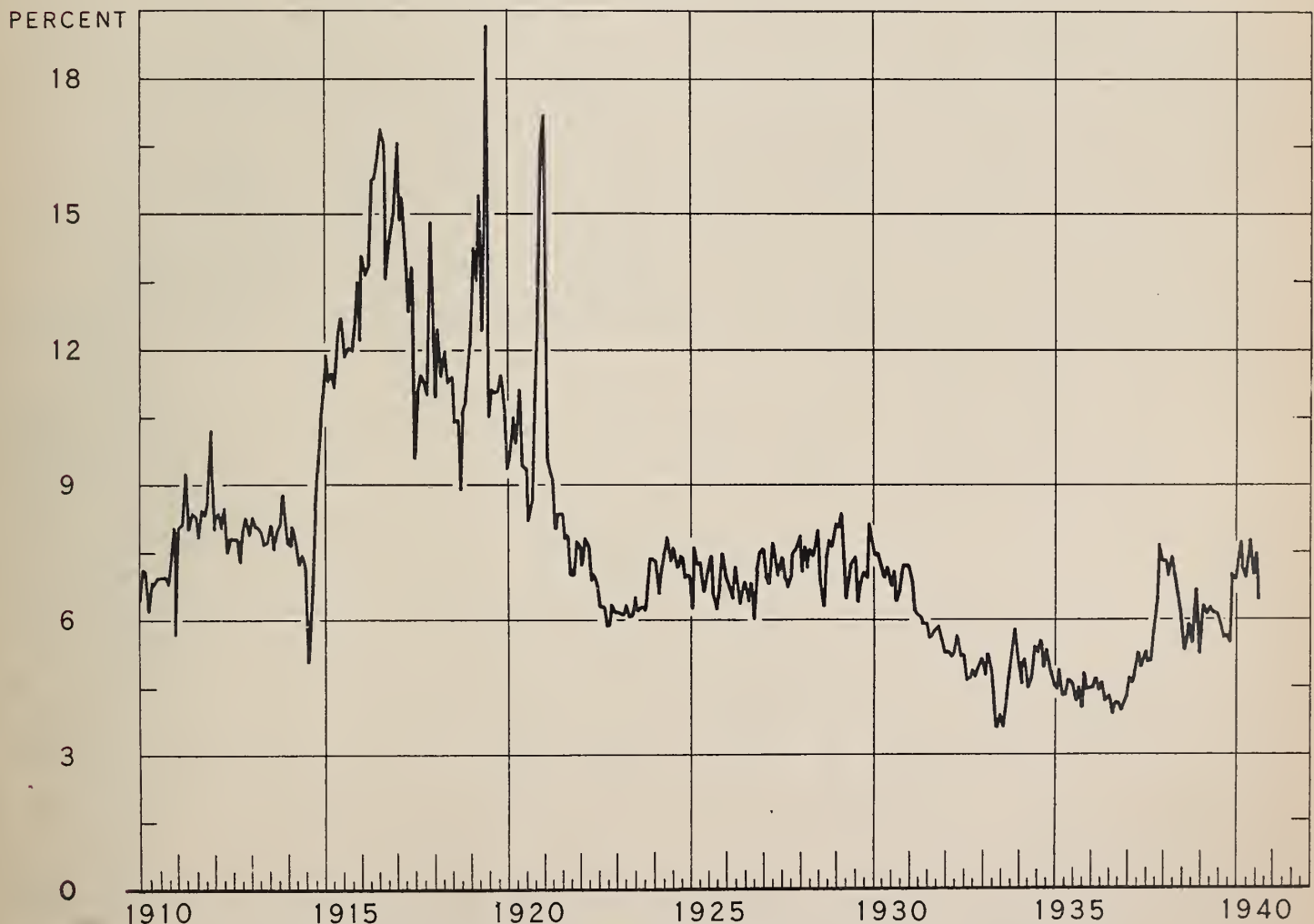
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NOVEMBER 1940

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EXPORTS AS PERCENTAGE OF FACTORY OUTPUT.

EXPORTS OF MANUFACTURES* AS PERCENTAGE OF FACTORY PRODUCTION, UNITED STATES, 1910-40



*CONSISTS OF FINISHED AND SEMI-MANUFACTURES, AND PROCESSED FOODSTUFFS

U. S. DEPARTMENT OF AGRICULTURE

NEG. 38743 BUREAU OF AGRICULTURAL ECONOMICS

EXPORTS OF PROCESSED GOODS ACCOUNTED FOR ABOUT 7 PERCENT OF FACTORY PRODUCTION DURING THE FIRST 9 MONTHS OF 1940, THE HIGHEST PERCENTAGE FOR ANY SIMILAR PERIOD IN 10 YEARS AND ABOUT AS HIGH AS AT ANY TIME SINCE 1921. SINCE THE CAPITULATION OF FRANCE THE PROPORTION OF THESE EXPORTS GOING TO THE UNITED KINGDOM (ABOUT 35 PERCENT) HAS BEEN ABOUT THREE TIMES AS LARGE AS BEFORE.

SUMMARY

Improvement in the conditions affecting the domestic demand for farm products is continuing. In October industrial activity was slightly above the previous peak reached in December 1939, and there has been some additional advance in November. These gains in industrial activity have been accompanied by increases in the income of industrial workers and in national income.

The domestic defense program is the principal force behind the improvement in demand conditions. The increasing defense expenditures are reflected in active factory-building operations and in increased output of defense equipment. Aside from these direct effects on current productive activity, the defense program is having important indirect effects upon industrial buying policies, resulting in the accumulation of inventories in some lines because of anticipated higher prices and the possibility of later difficulties in securing deliveries.

The production of goods for the building of inventories probably has been a large factor in the recent increases in industrial activity. The tapering off of this inventory-building program might be accompanied by a slowing up, and perhaps some temporary decline, of industrial production, if it occurs before the output of defense equipment can be increased sufficiently to offset such a development. It is not unlikely that there will be a period of several months, perhaps beginning shortly after the turn of the year, when industrial activity will fail to make further progress.

Exports of farm commodities have continued to shrink, and in September were 70 percent below a year earlier, and 77 percent under January of this year. Industrial exports continued large, but were smaller than in August.

Great Britain is encountering increased difficulties in keeping her ocean shipping lanes open.

Wholesale commodity markets have continued for the third consecutive month to reflect improvement in industrial conditions and in consumer buying power. The rise in wholesale prices since last summer has been somewhat greater for industrial raw materials and imported commodities than for farm products and foods, largely because of the greater gains in the former groups during the past month. Strength in industrial raw material and imported commodity prices has been due in part to heavy purchases for inventory, whereas the rise in farm product prices has been due primarily to improvement in domestic consumer buying power. The general upward trend in commodity prices is expected to be maintained, subject to temporary relapses, but no marked rise such as occurred during the World War is yet in sight.

Farm income in October increased considerably more than is usual for the season. This was due primarily to heavy cotton marketings, following the unusually small marketings prior to October, and to the early movement of hogs which resulted in marketings in October about 25 percent higher than a year earlier. Prices received by farmers apparently were little different on the average in November than in October, although seasonal influences were reflected in higher prices for butter and eggs and in lower prices for corn and hogs.

- November 16, 1940

The situation by commodities is as follows:

Wheat:	Domestic wheat prices are close to the high for the season and slightly above prices a month ago. The effect of the loan program in reducing the supply of free wheat continues to dominate the market.
Cotton:	Cotton prices have shown some gain over prices a month ago, and the 10-market average price of 9.67 cents on November 14 was

about 3/8 cent above the Government loan rate. Domestic cotton consumption showed a material gain over September, and the seasonally adjusted index of 127 for October was 8 points higher than a year earlier. Foreign mill activity is at a very low level and prospects are for continued decreases. From August 1 through October 31, domestic exports of raw cotton were only 20 percent of exports a year earlier. Great Britain took two-thirds of the amount exported thus far this season, most of the remainder going to Russia, Japan and Canada.

Feed grains: The total supply of feed grains available for the 1940-41 feeding season is now estimated to be about 115 million tons. The supply per grain-consuming animal unit, excluding corn sealed or held by the Government on October 1, is slightly larger than a year earlier, but it is not much different from the 1928-32 average.

Hogs: Because of unusually heavy marketings so far this fall and the decrease in the 1940 spring pig crops, it now appears likely that slaughter supplies of hogs will decrease sharply in the late winter and early spring this year. Hog slaughter in October was the largest for the month on record. Hog prices declined less than usual during the month, however.

Beef cattle: Slaughter supplies of grain-fed cattle in 1941 may be a little smaller than a year earlier during the first part of the year, but they may be larger next summer and fall. Cattle slaughter increased sharply in October, but prices of the upper grades advanced to the highest level in 3 years.

Lambs: Marketings of sheep and lambs increased sharply in October, but slaughter so far this season (May-October) has totaled only a little larger than a year earlier. Slaughter supplies in the coming fed-lamb marketing season (December-April) may show a moderate increase over the 1939-40 season. Lamb prices have held fairly steady for the past 3 months.

Wool: Mill consumption of apparel wool in the United States probably will be considerably larger in 1941 than in 1940. And the increase in consumption will be accompanied by considerably larger imports. Prices of most grades of domestic wools advanced 7 to 14 cents a pound, scoured basis, in October. Buying of wool to fill large Government orders and shortage of fine domestic wools for immediate delivery were important factors in the price advance.

Butter: The rise in prices of dairy products since late summer has been somewhat greater than the usual seasonal increase. The rise in business activity and the improvement in consumer incomes have been the principal factors in causing the improvement. Milk production and output of manufactured dairy products are declining seasonally, but production has been high compared with

the same period of earlier years. With more cows on farms and ample feed supplies, milk production during the current feeding period is expected to be larger than the high output in the same period of 1939-40.

- Poultry and eggs: Marketings of poultry are now increasing seasonally. Chicken prices are slightly higher than they were at this time last year; turkey prices are slightly lower. Egg production in October was the largest on record for that month, but it is now declining relative to the corresponding period of recent years because of the considerably smaller number of layers on farms. Egg prices are expected to continue above those of a year earlier into 1941.
- Oilseeds, fats and oils: Present indications are that lard prices may advance fairly sharply in the late winter and spring next year. Except for butter, prices of domestic fats and oils were 20-35 percent lower in October this year than last, and prices of oilseeds also were lower. Production of fats and oils from domestic materials from January through September this year was of record size. Consumption of food and soap fats was increased from a year earlier, but consumption of drying oils and fish-liver oils was reduced.
- Fruit: Prices of apples, oranges, and grapefruit declined seasonally during the latter part of October. It appears unlikely that imports of apples from Canada this season will exceed 700,000 bushels.
- Potatoes: Prospects for the late potato crop continued to improve in October, particularly in the western States, and probably will result in larger winter supplies and lower prices than a year earlier.
- Truck crops: Plentiful supplies of truck crops for the late fall and winter markets are likely to result in less than normal seasonal rise in prices, despite an improvement in consumer purchasing power.

DOMESTIC DEMAND

Improvement in the domestic demand for farm products is continuing as industrial activity and consumer buying power are stimulated directly and indirectly by the defense program and by large exports of industrial products. Although inventories of durable goods have been increasing recently, unfilled orders of producers have not been reduced, foreshadowing further near-term gains in industrial production. However, further improvement for several months after January 1941 is much less likely because output in some important industries now is too close to capacity to permit the full seasonal gains which are usual in those months, and because inventory building will by then be less urgent.

Industrial production, as measured by the Federal Reserve index, reached a new all-time peak in October (127 percent of the 1935-39 average)

and apparently is rising further this month. National income payments, which are affected by the level of prices as well as by the volume of business activity, have not yet reached the 1929 level; but living costs, especially foods, are substantially lower than in 1929, so that the purchasing power of national income payments in 1940 is estimated at more than 8 percent higher than in 1929 - an amount fully equal to the increase in population.

The defense program is having a considerably greater stimulating effect on industrial production than would be suggested merely by the increase in actual expenditures for defense equipment. Since June upwards of 8 billion dollars in defense orders have been placed, furnishing a backlog of orders leading to plant expansion for future production of many heavy industrial products. This and other defense construction activity is probably fully as important in the industrial situation at the moment as is the actual filling of defense orders. Another important factor is the buying for inventory to insure against possible delays in deliveries which may later be forced by priorities. Thus, the gains in industrial production which have been induced by the defense program are at present out of proportion to the actual defense expenditures which have thus far been made. Defense expenditures, however, are now increasing rather sharply and will reach much higher levels when large-scale production is attained in the new plants now under construction.

The upward trend in industrial exports, referred to last month, was not continued in September. This may have been due partly to the increased shipping difficulties encountered by Great Britain in her war with Germany, but the drop in exports was not confined to those going to Great Britain. Forty percent of the entire decline was in aircraft exports. Disclosure of plans for the construction of commercial shipbuilding facilities in this country, financed by British funds, suggests the growing seriousness of the shipping situation. Also, there have been reports that Great Britain wants to place additional substantial orders for industrial products. The construction of manufacturing facilities in this country to produce additional amounts of finished goods for Great Britain may become an important factor in our general industrial situation. Obviously, further destruction of manufacturing activities in Great Britain might have an unfavorable effect on our exports to her of materials such as steel, but the construction of plants in the United States and later the finishing of products in them for the account of Great Britain could easily offset any probable losses of exports of unfinished industrial goods and afford an added stimulus to domestic activity and industrial payrolls.

Although, because of these conditions, the general trend of industrial activity is expected to be upward over a considerable period, short-time fluctuations in the opposite direction are not unlikely. At present the more favorably situated industries are at or are approaching capacity operations. Ordinarily, there is a seasonal upward trend from January to May, amounting to about 5 percent on the Federal Reserve index. If the output of industrial products is unable to increase much over the level to be reached in January, until capacity is further expanded, this would mean a temporary decline in seasonally adjusted measures of activity. This might be accentuated if buying of steel and other products for inventory slowed up before large increases in output of actual defense equipment can take place.

These are the main considerations which indicate that industrial production and domestic buying power may rise somewhat further in the near future, fluctuate around a relatively high level during the first half of 1941, and then rise further by the end of 1941. In view of these prospects, the domestic demand for farm products is expected to be considerably better throughout 1941 than in 1940.

EXPORT DEMAND

The downward trend in agricultural exports in evidence since last January has continued. The outlook for exports of agricultural products for the duration of the war remains highly unfavorable, unless shipping losses should become so great as to necessitate British purchases of meat and other products from the United States instead of from more distant surplus-producing nations, as happened during the World War.

Losses in exports of agricultural products, as was pointed out in this report last month, have been serious for practically all important export commodities and have affected all export markets outside of the Western Hemisphere. Continental European markets, which in peace time take about one-third of our agricultural exports, are practically closed.

In September the total value of agricultural exports amounted to only 22.2 million dollars as compared with 97.2 million in January and 74.4 million September 1939. Compared with a year earlier, the September exports were 30 percent as large, and compared with exports in January of this year only 23 percent as large. Valued at export prices, which are higher than prices at the farm, exports in September were only 2.6 percent as great as farm income from sales, compared with a ratio of 8.9 percent between exports and income from sales in September 1939. Obviously, exports now are too small to be of much significance in contributing directly to total farm income, but the low level of exports is an important influence tending to hold down prices of some farm products in domestic markets.

WHOLESALE COMMODITY PRICES

The advance in wholesale commodity prices which started after mid-August has continued, and prices of 28 basic commodities have risen about 11 percent, according to the Bureau of Labor Statistics daily index. Prices of industrial raw materials and semi-manufactures are responding to defense program developments and continued improvement in consumer demand is being reflected in further gains in prices of farm and food products. These conditions will continue as a favorable influence in the commodity price situation over the next several months.

During the past month the rise in wholesale commodity prices has been somewhat larger for industrial raw materials and import commodities than for farm and food products. The gain in the daily price index for these groups also has been greater over a 3-months interval than the rise for the farm and food product groups.

Declines in wholesale prices of corn and hogs since mid-October have been largely of a seasonal nature, as have the rises in egg and butter prices.

Prices of wheat and cotton have also advanced some during the past month. The sharp rise in wool prices during the final week of October was due largely to the requirement that only domestic wool could be used in filling Army orders, but this restriction has now been removed. Among industrial product prices, advances have continued in construction materials and such miscellaneous raw materials as rosin, hides, and some metals.

Although prices of industrial products will be affected by defense requirements over an extended period, the near-term situation is more dependent on industrial buying and inventory policies. Prices of important farm products are for the most part more dependent than prices of industrial products on domestic consumer buying power, which is continuing to improve.

PRICES RECEIVED AND PAID BY FARMERS

Price changes in wholesale markets since mid-October indicate that there has been little if any further advance over that made in the last 2 months in the index of prices received by farmers. However, the index for November probably will be two or three points higher than a year earlier, when it was 97 percent of the 1910-14 average.

Net price changes during the past month have for the most part not been large except for a few commodities the prices of which have been affected by seasonal considerations. Substantial seasonal price advances were noticeable in the prices of butter and eggs, and there were sizable declines of a seasonal nature in orange and grapefruit prices, and smaller ones in corn and hogs. Wheat prices have risen during the past month, and cotton prices also are up slightly.

In October prices received by farmers rose to 99 percent of the 1910-14 average from 97 in September and in October 1939. The ratio of prices received to prices paid in October was 81 percent of the 1910-14 average compared with 80 in the preceding month and in October 1939.

FARM INCOME

Cash income increased somewhat more than seasonally from September to October largely because of heavy marketings of cotton and meat animals, and was considerably higher than in October 1939. Because of the lateness of the cotton crop, marketings of cotton were relatively small in August and September but were larger than usual in October. While marketings of all meat animals increased more than usual from September to October and were substantially higher than in October last year, the movement of hogs to market was especially large and exceeded a year earlier by about 25 percent. Government payments in October were slightly less than those made last October but farm income including Government payments was larger than a year earlier.

Because of the relatively heavy volume of marketings in October it is probable that marketings and cash income may decline slightly more than usual from October to December. However, present prospects indicate a level of prices received by farmers slightly higher than a year earlier so that total cash income from farm marketings in the last 2 months of 1940 is not expected to differ materially from the corresponding months of 1939.

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COTTON

Spot cotton prices have strengthened some during the past month, with Middling 15/16" increasing from 9.27 cents in the 10 markets on October 14 to 9.67 on November 14. Most of this gain occurred toward the end of the period. This is the highest price for over 2-1/2 months and one-sixth cent above the price a year ago. It is about three-eighths cent above the average Government loan rate in these markets. The November estimated increase of about 100,000 bales in the American crop was so small as to have little effect on either supply or price. Through November 7 the Commodity Credit Corporation had received reports on 1-1/2 million bales of the current crop which had been pledged as collateral for Government loans. This raised Government owned and financed stocks to about 10 million bales.

Domestic mill activity continued to improve during the past month and the seasonally adjusted index of cotton consumption for October stood at 127 as compared with 120 in September and 119 in October 1939. This is equivalent to an annual rate of consumption of slightly under 8-1/2 million bales. The 771,000 million bales of cotton consumed during October is about one-eighth greater than the number in October 1939 and second only to the 777,000 bales consumed in March 1937. Sales of unfinished goods continued in excess of production, with most mills booked well in advance, and textile prices made general but moderate advances.

During the past month the inquiries from foreign countries for cotton textiles in Great Britain were reported as encouraging even though many bids were too low to be accepted. During September, the latest month for which export data are available, British textile exports were the equivalent of about 50,000 bales of cotton. The domestic civilian market for textiles in Great Britain continues to be very unfavorable but the domestic military demand has been active. Textile exports from Japan continue low and mill activity there and in China is expected to be curtailed still further.

American exports of raw cotton totaled only 350,000 bales for the 3 months ending October 31. This figure is only one-fifth as large as for the corresponding period last season. Great Britain has taken two-thirds of our cotton exports this season but has purchased only three-eighths as much cotton as in the corresponding period last season. A significant development during October is the exporting of American cotton to Russia for the first time since 1935. According to trade sources 77,000 bales were exported to Russia in the 5 weeks ending November 7. Some reports indicate that Russia may take considerable additional quantities of cotton this season.

WHEAT

Domestic wheat prices are close to the high for the season and slightly above prices of a month ago. The price of No. 2 Hard Winter at Kansas City and that of No. 1 Dark Northern Spring for the week ended November 9 averaged 1-1/2 and 2 cents, respectively, below the week ended October 26, when the average was the highest for the season, and about 1 cent above for the week ended

October 12. Prices are currently slightly higher than the average for the week ended November 9.

The price advance which started the middle of August continued until October 24, when the markets reacted. Milling and flour trade was weak during the last week in October and the open interest in futures was the smallest in years. During the first part of November prices again recovered. The effect of the loan program in reducing the supply of free wheat continues to dominate the market. The total of the 1940 wheat loans on November 4 was 243 million bushels compared with 152 million bushels on the same date a year earlier, and 167 million bushels for the entire 1939 season. Prices for the week ended November 9 were above loan values as follows: No. 2 Red at St. Louis 8.4 cents, No. 2 Hard Winter at Kansas City 5.0 cents, No. 1 Soft White at Portland 3.2 cents, and No. 1 Dark Northern Spring at Minneapolis 1.0 cent. These differentials do not take into account charges of about 1 cent per month.

The amount that current prices are now above "world" prices is indicated by the export indemnity which would be required to export wheat to Europe. Computed on the basis of export values, this would be about 31 cents per bushel from Gulf ports and 26 cents from Pacific ports, which compare with 26 cents and 22 cents respectively, a month ago.

During the past month there has been no significant changes in the estimate of the world crop. A downward revision in the Canadian crop from 561 to 547 million bushels was about offset by an upward revision in the indication for Argentina. There has been no new estimate for the United States. World wheat supplies, excluding those in the U.S.S.R. and China, for the year beginning July 1940 are still estimated at less than 50 million bushels smaller than a year earlier, when they totaled about 5,475 million bushels.

OILSEEDS, FATS AND OILS

Lard prices in October, under the influence of a record hog slaughter, declined to the lowest level since March 1933. Present indications are that hog slaughter will be reduced materially in the first quarter of 1941; hence, lard prices may show fairly substantial gains in the late winter and spring months next year.

Except for butter, prices of domestic fats and oils were 20-35 percent lower in October this year than last. Prices of imported fats and oils have shown mixed trends during the past 12 months, with prices for those oils which are readily available for shipment to the United States tending to decline, but with prices of oils not readily accessible because of war conditions being maintained at high levels, or advancing.

Domestic oilseeds, as well as fats and oils, were lower priced in October this year than last. But, except for flaxseed, the price reductions have been moderate. Flaxseed prices have been weakened not only because of a large domestic crop this year, but also as a result of the blockade of continental European markets. It is probable that there will be a large surplus of flaxseed in Argentina and Uruguay when the new crops are harvested in those countries this winter.

Production of lard, tallow, greases, and soybean oil, as well as linseed oil from domestic flaxseed, was substantially larger during the first 9 months of 1940 than a year earlier. Total production of fats and oils from domestic materials for the three-quarter period was about 8 percent in excess of that in the corresponding period of 1939, and was of record size. Net imports of fats, oils, and oil-bearing materials (in terms of crude oil) were 9 percent less in the 9-months period this year than last. The combined factory and warehouse stocks of primary fats and oils on September 30 were about 12 percent larger than a year earlier.

Total consumption of primary fats and oils from January through September this year was nearly equal to the record consumption in the corresponding period of 1939. Consumption of food and soap fats and oils was increased, but consumption of drying oils and of fish-liver oils was reduced. The reduction in utilization of drying oils apparently was the result of a fairly large accumulation of stocks of mixed paints and varnishes during 1939; while the use of fish-liver oils was restricted because of difficulties in obtaining supplies of such oils from foreign sources.

FEED GRAINS

The total supply of feed grains available October 1, 1940 is now estimated at about 115 million tons, or about 2 million tons more than the supply indicated a month earlier. Since October 1 the estimate of the 1940 corn crop has been increased about 3 percent. The indicated production of grain sorghum was reduced a little during the month, however. The 1940 supply of corn, including corn under seal or held by the Government on October 1, is now estimated to be about 3,135 million bushels, compared with 3,202 million bushels last year. Except for last year it is the largest corn supply since 1932.

Corn yields have not been quite so large this year as last, and the quality of the 1940 crop is not quite so good as in the previous 3 years. There is considerable variation in both quality and yields of the 1940 crop, whereas the 1939 crop was quite uniform in these respects.

The number of livestock to be fed is a little smaller this year than last, and with only a moderate reduction in feed production, the available feed supply per animal unit is again large. The number of grain-consuming animal units on farms on January 1, 1941 is expected to be around 132 million, compared with 136.7 million on January 1, 1940. If the quantity of corn sealed or held by the Government on October 1 is excluded, the supply of feed grains per animal unit is slightly larger than the corresponding supply last year and it is 5 percent larger than the 1928-32 average.

Corn prices weakened a little in late October and early November but remained substantially higher than a year earlier. The average price of No. 3 Yellow corn at Chicago for the week ended November 9 was about 63 cents, compared with 65 cents a month earlier and 49 cents in the corresponding week of 1939. Oat prices have advanced a little in recent weeks, but have remained below prices of last fall. In early November the average price of No. 3 White oats at Chicago was around 35-1/2 cents per bushel, 2 cents higher than a month earlier but about 2 cents lower than a year earlier.

HOGS

A greater than usual decrease in hog marketings seems probable during the late winter. This probably will be accompanied by a fairly sharp rise in hog prices, particularly if consumer demand for meats continues to improve as now seems likely. The decrease in hog marketings from a year earlier in the 1940-41 marketing year will occur mostly after December.

The weekly rate of hog marketings has increased sharply during the past 2 months, and slaughter supplies have continued substantially larger than a year earlier, despite the 8 percent reduction in the 1940 spring pig crop from that of a year earlier. In October, the first month of the 1940-41 marketing season, Federally inspected slaughter totaled 4,483,000 head, over 40 percent more than in September and 26 percent more than in October last year. It was the largest October slaughter on record. Average weights of hogs marketed in October were a little lighter than a year earlier, reflecting to some extent the early market movement of hogs this fall.

Hog prices declined relatively little during October and early November, despite the exceptionally large increase in marketings. Prices have been supported by improvement in consumer demand for meats and a fairly good storage demand for pork in recent weeks. The average price of butcher hogs at Chicago for the week ended November 9 was \$6.30, compared with \$6.40 a month earlier and \$6.45 in the corresponding week of 1939. The spread between prices of butcher hogs and packing sows has narrowed considerably since late summer as marketings of sows and heavy butcher hogs have decreased seasonally.

CATTLE

Slaughter supplies of cattle and calves will decrease during the next 2 or 3 months as marketings of both grain-fed cattle from the Corn Belt and grass cattle from the Range States decrease seasonally. Shipments of feeder cattle into the Western Corn Belt have been larger this fall than last, but shipments into the Eastern Corn Belt have been smaller. Present indications are that the total number of cattle fed during the 1940-41 feeding season will be about the same as or a little larger than the number fed last season. There are some indications that the number of short-fed cattle for market in the late winter will be smaller this season than last, and that a moderate increase in marketings of fed cattle as compared with a year earlier may occur in the late summer and early fall of 1941. Cattle prices in 1941 will be supported by further improvement in domestic consumer demand for meats.

Supplies of cattle increased sharply during October. Federally inspected slaughter for the month totaled 968,000 head, 19 percent more than in September and 8 percent more than in October last year. In contrast with the usual seasonal movement, cattle slaughter decreased from August to September. And in view of the greater than usual increase in slaughter in October, it now appears that marketings were delayed during September in order to take advantage of the improvement in pastures and ranges which occurred as the result of rains during the late summer. Inspected cattle slaughter in the 4 months July-October this year totaled about 2 percent greater than a year earlier.

The spread between prices of the upper and lower grades of slaughter cattle widened further during October and early November, as prices of choice and prime beef steers advanced to the highest level reached since late 1937. Prices of the lower grades of slaughter cattle advanced a little in October but weakened again in early November. The trend in prices of short-fed and grassy cattle has been seasonally downward in recent weeks. The average price of good grade beef steers at Chicago for the week ended November 9 was \$11.75, compared with \$9.60 in the corresponding week of 1939. Prices of the lower grades of slaughter steers in recent weeks have not been greatly different from a year earlier. Prices of stocker and feeder cattle advanced during October, and in early November they were around 50 to 75 cents higher than the level which prevailed during most of last fall. Marketings of grain-fed cattle have been a little smaller this fall than last, and prices have been supported by stronger consumer demand for meats than a year earlier.

LAMBS

The number of lambs fed during the 1940-41 lamb-feeding season will be larger than a year earlier. Shipments of feeder lambs into the Corn Belt have been substantially larger this fall than last, and the number of Texas lambs being held for market next spring as shorn yearlings appears to be larger than the number last year. A moderate increase in slaughter supplies of lambs and yearlings during the coming fed-lamb marketing season (December-April) compared with the 1939-40 season seems likely. The effects of the larger supplies on prices of sheep and lambs probably will be more than offset by stronger consumer demand for meats and higher wool prices during the coming winter and spring than a year earlier.

Federally inspected slaughter of sheep and lambs totaled 1,734,000 head during October, 18 percent more than in September and 9 percent more than in October last year. As in the case of cattle, it appears that marketings were held back during September, with a consequent sharp increase in marketings during the following month. So far in the grass-lamb marketing season (May-October) inspected slaughter of sheep and lambs has totaled about 1 percent larger than in the corresponding period of 1939.

Lamb prices held fairly steady during October and advanced a little in early November, despite heavy marketings of lambs in recent weeks. The average price of good and choice slaughter lambs at Chicago for the week ended November 9 was \$9.60, compared with \$9.30 for the first week of October and \$9.40 in the corresponding week of 1939. Prices of wool have advanced considerably since late summer, and this has been an important factor supporting lamb prices this fall. Lamb prices have held about steady since early August. Ordinarily they decline a little in the late summer and early fall as marketings increase seasonally. Prices of feeder lambs have averaged about the same this fall as last.

WOOL

Mill consumption of apparel wool during the remainder of the current wool season, up to April 1, 1941, will be considerably greater than in the corresponding period a year earlier. This increase in consumption will reflect chiefly the large Army contracts for wool goods awarded in recent months.

The increase in mill consumption will be accompanied by a large increase in imports during the coming winter and spring. Large purchases of wool in Argentina and Uruguay have been made recently by United States buyers. Wool produced in these two countries, however, is chiefly medium and coarse wools, whereas United States requirements in the next several months will be for relatively large quantities of fine wools. A considerable volume of wool imports from the Union of South Africa and Australia, therefore, is expected. Australian and South African production is mostly of fine wools.

For the entire year 1941, domestic mill consumption of wool probably will be larger than in 1940, and further increases in imports may occur. The high level of mill consumption in prospect for next year will be an important supporting factor to prices of wool from the 1941 clip in the United States.

Prices of most grades of domestic wool at Boston advanced 7 to 14 cents a pound, scoured basis, in October. Buying of wool to fill new Government orders, and a scarcity of offerings of fine domestic wool available for immediate delivery were important factors in the price advance. Prices of fine and half-blood domestic wools at Boston in early November were slightly higher than a year earlier but prices of 3/8 blood and coarser grades were lower than a year earlier.

The supply of wool available in South America in the 1940-41 season probably will be somewhat larger than in the 1939-40 season. The prospective increase in supplies is the result of a larger carry-over of wool on October 1, 1940. No material change in production is in prospect, according to preliminary estimates for Argentina and Uruguay.

DAIRY PRODUCTS

The rise in prices of dairy products since late summer has been somewhat greater than the usual increase which occurs at this season of the year. Since the seasonal peak in butter prices usually comes in December, some further rise in butter prices during the remainder of the year appears in prospect. Prices of dairy products during the coming winter and spring are expected to average higher than in the same period of 1939-40. The rise in business activity and the improvement in consumer incomes have been the principal factors in causing the improvement in prices of dairy products.

Milk production and output of manufactured dairy products are declining seasonally but production has been high compared with the same period of earlier years. Total milk production on November 1 was about 5 percent above the preceding peak for that date a year earlier. Butter production in October was about 10 percent higher than in October 1939. It is expected that milk production during the winter will average higher than in the same period of 1939-40. The higher level of prices together with larger production will result in larger incomes for dairy producers than in the winter of 1939-40.

Apparent consumption of butter in September was about the same as a year earlier, but relief output was much lower. Output through regular trade channels in September was about 6 percent larger than in the same month of 1939. Retail prices were practically the same in both months, so that apparent

consumer expenditures for butter were about 6 percent larger. After allowing for seasonal variations, consumer expenditures for butter have shown little change since last April. In recent years expenditures for butter have often lagged behind changes in consumer incomes. It is expected that consumer expenditures for dairy products will increase above present levels because of improvement in purchasing power of consumers.

POULTRY PRODUCTS

Marketings of poultry are now increasing seasonally. Receipts of poultry at the principal markets for the 3 months ended November 1 were larger than a year earlier despite the substantially smaller hatch of chicks this year compared to 1939. This may have been the result of earlier than usual marketings of young stock and turkeys, the continued heavy farm marketings of fowl, and a heavy inter-market movement of several classes of frozen poultry. As a result of the early season marketings, storage stocks of all classes of poultry, except broilers, on November 1 were larger than a year earlier. Although farm marketings in some weeks may be stimulated by cold weather, receipts for the remainder of the year are expected to average smaller than in the corresponding period of 1939.

Wholesale prices for chickens are somewhat higher than at this time last year and the price received by farmers for chickens in mid-October was about 1 cent higher than in October 1939. Chicken prices during coming months are expected to continue higher than those of a year earlier because of smaller supplies and larger consumer incomes. Supplies of turkey are a little larger than those of last year and turkey prices are slightly lower. The mid-October farm price for turkeys was 14.7 cents compared with 15.3 cents in October 1939.

Egg production in October was the largest on record for that month and production per layer on November 1 was the largest on record for that date. However, the number of layers on farms is now considerably smaller than a year earlier. Thus, even without any curtailment in the rate of lay, production during the immediate future may be considerably smaller than in the same months of last winter. This would tend to cause a larger out-of-storage movement of eggs. United States storage stocks of privately owned eggs on November 1 were about 2 percent larger than a year earlier.

The average price received by farmers for eggs in mid-October was higher than a year earlier and wholesale prices have risen a little since that date. The price received by farmers for eggs is expected to be higher than a year earlier during most of 1941 in view of the smaller expected production and the higher level of consumer income.

POTATOES

The late potato crop prospect, particularly in the Western States, improved slightly during October, and resulted in an increase in the crop indication of about 4 million bushels. The late crop, as of November 1, totaled 309 million bushels or about 19 million more than that of 1939. There was little change in the late crop prospect in the Eastern States, but a decrease

of nearly 2 million bushels in the Central States was more than offset by an increase of nearly 6 million bushels in the western group.

On the basis of these indications, market supplies of potatoes during the early fall and winter months will be more plentiful than a year earlier. Market prices have already reflected these larger supplies, the early November averages being substantially below those of a year earlier. The increase in supplies has more than offset the influence of improving consumer demand. As a general rule potato prices vary little during the period November to April in seasons when the supply is as large as it is this year.

Market prices of Russet Burbanks rose slightly during recent weeks to an average of \$1.57 per 100-pound bag at Chicago but declined to a low for the season to date of \$1.84 at New York. Prices of Green Mountains at New York have been very stable during recent weeks at about 95 cents per 100-pound bag.

TRUCK CROPS

Supplies of truck crops more plentiful than a year earlier are indicated to be available for the late fall and early winter months. Frosts in late October occurred as far south as the first tier of the Southern States, and left only the more hardy vegetables for marketing in the Northern States. Most of these are now in storage. Supplies of stored cabbage, carrots, and celery are all indicated to be larger than a year earlier, whereas those of onions are smaller. But supplementing these stored vegetables are the first 1941 truck crops now being harvested in the South and in California. These include an unusually large fall crop of snap beans, and slightly larger fall crops than a year earlier of cauliflower, cucumbers, eggplant, kale, spinach, peppers and tomatoes. The fall acreage of cabbage, and lettuce is also larger than in 1939. Fall crops of carrots and celery are indicated to be slightly smaller.

Looking further ahead to the market supply during the late winter and early spring months, the acreage of early cabbage intended to be planted is about 11 percent larger than that planted a year earlier, and the acreage of early onions indicated to be planted is 48 percent larger. The acreage of asparagus expected to be available for harvest for the fresh market and for processing in the spring of 1941 is 1 percent larger than that of 1940.

Although consumer purchasing power is expected to be greater than a year earlier, the greatly increased supplies of truck crops are likely to cause truck crop prices to average slightly lower than during the fall and early winter months of last season. This will be particularly true for the mid- and late winter months unless the truck crops in the Southern States suffer severe damage from freezes as was the case in early 1940. Market prices of important vegetables rose seasonally in recent weeks but in early November they averaged somewhat lower than a year earlier.

FRUITS

November 1 estimates of the production of pears, grapes, oranges, grapefruit, and commercial apples did not differ materially from the estimates made for these same fruit crops a month earlier. The production of fall and

winter pears in the Pacific Coast States is indicated to be about 10 percent greater than that of a year ago. Although considerable quantities of late pears are being purchased for relief distribution, it is likely that as a result of the near complete loss of export outlets a larger than usual proportion of the crop will remain unharvested.

For the week ended November 1 prices of western apples at New York, which declined seasonally during the last 3 weeks of October, were for the first time this season below comparable prices of a year earlier. The seasonal decline in prices was relatively greater than that of a year ago largely because of the heavier shipments of western apples this year compared to last. Although the total commercial apple crop is about 20 percent smaller this season than last, an increased western commercial crop resulted in cold storage holdings on November 1 slightly larger than a year earlier.

Imports of Canadian apples, which reached a peak in the week ended October 26 and then dropped off sharply in the following week, totaled approximately 466,000 bushels for the period September 7 to November 9 compared with approximately 12,000 bushels in the corresponding period last year. Indications are that imports from Canada will continue to fall off rapidly.

Prices of Florida oranges at New York averaged \$2.37 for the week ended November 8 compared with an average of \$1.82 for the corresponding week of 1939. Although the November 1 estimate of early and mid-season orange production in Florida is greater than the final estimate of Florida early and mid-season orange production in 1939, it is approximately 1 million boxes less than the estimate made as of November 1, 1939. The freeze in the latter part of January 1939 resulted in a drastic reduction in the final estimate of orange production in Florida. Grapefruit prices declined seasonally through October, and then advanced slightly during the first week of November.

EXPORTS AS A PERCENTAGE OF FACTORY OUTPUT

The European war has brought rapid changes in the volume, character and destination of exports of industrial products from the United States. Possible developments in connection with the war could drastically alter the export situation. In view of these conditions, readers of the Demand and Price Situation may be interested in an appraisal of the present relative importance of exports in the industrial situation, and of what their possible elimination might mean in terms of total industrial activity.

Recent computations by this Bureau indicate that exports are an even smaller proportion of factory output than previously had been generally assumed. These computations necessitate: (1) Revision of net value of factory production data, resulting in somewhat higher valuation than had previously been assumed; (2) Scaling down by 10 percent of the reported export values, in order to make them more nearly comparable with factory values.

It is estimated that exports of processed goods, exclusive of foods, amounted to about 8 percent of domestic production in the first 9 months of 1940. Exports of processed foods amounted to 2 percent of factory output,

and exports of all processed merchandise accounted for 7 percent of domestic production. Recent changes in these proportions are shown in the chart on the cover page.

It is evident from these figures that although exports represent a substantial factor in the total volume of industrial activity in this country at the present time, any losses which might occur as a result of foreign developments would be hardly likely to result in a critical situation for industry as a whole. Even the complete elimination of these exports could be obscured by relatively small shifts in domestic factors influencing industrial production. For instance, in some single months during the past few years industrial production has changed by a larger percentage than the percentage of total production represented by industrial exports at the present time.

For some individual industries, of course, exports represent a much larger percentage of total output than they do of all industrial activity. During the third quarter of 1940, for instance, exports constituted about 20 percent of steel production. In such industries the effects of exports on corporate earnings and employment are substantial.

The war has cut off from this country practically all of the markets of continental Europe, and at the same time has increased the needs of the United Kingdom for products from this country. For these reasons, the percentage of our total industrial exports going to the United Kingdom has greatly increased. During the September quarter of 1940 exports to the United Kingdom represented more than one-third of our total exports, in terms of value, of both nonagricultural and agricultural products. Assuming that about the same proportion of exports of processed industrial products went to the United Kingdom, it follows that exports to the United Kingdom accounted for about $2\frac{1}{3}$ percent of the output of United States factories. Although such a proportion of total output may appear small, British takings of some individual commodities constitute an important percentage of the total output of the industries producing them. For instance, during the September quarter steel exports to the United Kingdom represented about 12 percent of the United States production. Similarly, during the third quarter 71 percent (in terms of value) of our exports of airplanes and 85 percent of our exports of firearms and ammunition went to the United Kingdom.

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INDEX NUMBERS: INDICATED BASE PERIOD = 100

YEAR AND MONTH	INDUS- TRIAL PRO- DUCTION ¹	CON- STRUC- TION CON- TRACTS AWARDED ¹	FACTORY EMPLOY- MENT ²	FAC- TORY PAY- ROLLS ²	INCOME OF IN- DUSTRIAL WORKERS ³	VOLUME OF AGRI- CULTURAL EXPORTS ⁴	WHOLE- SALE PRICES OF ALL COMMOD- ITIES ⁵	RETAIL FOOD PRICES ⁶	PRICES RE- CEIVED BY FARMERS ⁷	PRICES PAID BY FARM- ERS	RATIO OF PRICES RECEIVED TO PRICES PAID	CASH INCOME FROM FARM MARK- ETINGS ⁸
BASE PERIOD	1935-39	1923-25	1923-25	1923-25	1924-29	1910-14	1910-14	1913	1910-14	1910-14	1910-14	1924-29
1929	110	117	106	110	107	107	139	166	146	153	95	104
1930	91	92	92	89	88	82	126	158	126	145	87	83
1931	75	63	78	68	67	88	107	130	87	124	70	58
1932	58	28	66	47	46	94	95	108	65	107	61	44
1933	69	25	73	50	48	85	96	105	70	109	64	49
1934	75	32	86	64	61	66	109	117	90	123	73	58
1935	87	37	91	74	69	61	117	126	108	125	86	65
1936	103	55	99	86	80	55	118	127	114	124	92	76
1937	113	59	109	102	94	65	126	132	121	130	93	81
1938	88	64	90	78	73	75	115	122	95	122	78	71
1939	108	72	97	91	83	65	113	119	93	121	77	72
1939-												
Sept.	113	73	98	93	86	81	115	123	98	122	80	74
Oct.	121	76	101	100	91	82	116	122	97	122	80	76
Nov.	124	83	103	103	93	56	116	121	97	122	80	76
Dec.	126	86	105	104	93	75	116	119	96	122	79	79
1940-												
Jan.	122	75	104	102	93	105	116	119	99	122	81	79
Feb.	116	63	102	98	89	104	115	121	101	122	83	84
Mar.	112	62	100	95	87	68	114	120	97	123	79	76
Apr.	111	64	99	95	86	61	115	120	98	123	80	82
May	114	64	99	95	87	47	114	121	98	123	80	80
June	121	74	100	98	89	44	113	123	95	123	77	70
July	121	85	101	100	91	47	113	122	95	122	78	71
Aug.	121	90	104	104	94	32	113	121	96	122	79	71
Sept. ⁹	125	93	105	109	97	22	114	122	97	122	80	74
Oct. ⁹	127						114	120	99	122	81	

¹Federal Reserve Board, adjusted for seasonal variation. Industrial production revised August 1940.²Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payrolls by Bureau of Agricultural Economics).³Adjusted for seasonal variation. Includes factory, railroad, and mining employees.⁴Foreign Agricultural Relations, July 1909 - June 1914 = 100, adjusted for seasonal variation.⁵Bureau of Labor Statistics, 1926 = 100, converted to 1910 - 14 = 100.⁶Bureau of Labor Statistics, 1935 - 39 = 100, converted to 1913 = 100. Revised series beginning 1935.⁷August 1909 - July 1914 = 100.⁸Adjusted for seasonal variation. Revised March 1940.⁹Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railway workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income, whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and payrolls. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is usually a time lag between changes in volume of production and similar changes in employment and in workers' income.

